The Financial State of Frederick County

County Commissioner C. Paul Smith

Understanding the County budget is somewhat difficult, and many people do not have the patience to try to understand it. Though this is not an exciting topic, I will share some budget information that is important to understand. The BOCC will vote on the FY2013 budget on June 7^{th} .

The Proposed Budget. The proposed budget for FY 2013 is \$471,219,612--\$22 million more than for FY2012. This is due primarily to the following increases:

- 1. \$6 million for teacher pensions;
- 2. \$3.5 million additional funding to BOE;
- 3. \$7 million additional Fire Tax funding;
- 4. \$0.75 million to fund a new law making the County liable if firefighters get cancer;
- 5. \$0.5 million additional funding to FCC; and
- 6. \$11 million additional funding to County Departments (which includes pay increases)

Property Tax Revenues Are Down; Income Tax Revenues Are Up. The County is able to meet these increased expenditures in spite of a \$19.5 million decrease in property tax revenues. Fortunately, this decrease has been offset by increased income tax revenues (up \$12.4 million) and by savings achieved through many actions taken to increase efficiencies and savings in County operations. In fact, the income projections for FY2013 are so good, that this budget includes pay increases for Fire & Rescue workers, Sheriff's Office and Correctional workers and the other County Government employees—this is the first time in the last few years that the County has been in a position to give raises. The BOE announced this week that it would also give pay increases to teachers and support staff. The one group that is not receiving any pay increases are the teachers and staff at FCC. The County should have provided funds for this.

Projected Deficits for FY2014 and FY2015. The County Finance office projects an \$8.2 million deficit in FY2014 and a \$16.5 million deficit in FY2015. Since an \$8 million deficit is projected for FY2014, therefore we should hold on to the \$6.7 million proposed rebate and use it to reduce the projected deficit.

Fire and Rescue Tax Deficits. The County continues to face significant, recurring deficits in our Fire and Rescue Tax. The BOCC intends to address this soon.

Stormwater Retrofit Tax. The FY2013 budget does not include any funding for the recently passed law that requires 8 counties to levy a Stormwater Tax. We find several serious problems with this new tax—including the fact that it is not levied on all counties whose streams discharge into the Chesapeake Bay. It has not been demonstrated that the high cost of these retrofits will have any significant impact on improving the quality of water in the Bay. It is also unfair to for the State to assess financial responsibility based upon acreage rather than on population. And it is not fair to only require a few of the counties to pay to filter water going into the Bay. The County is considering whether to mount a legal challenge to this law. However, it does appear that the State is determined to require Frederick County to pay an

estimated \$200 million for stormwater retrofits during the next 13 years (\$15.3 million/year)—that would be a cost of approximately \$65 per person per year for 13 years—or \$260/year for a family of four. In any event our current budget does not include anything to meet this prospective expense.

Unfunded Mandates from State and Federal Governments. This Board has done a marvelous job in trimming our County budget so that we have been able to avoid raising taxes. The majority of our remaining budget problems are due to unfunded laws and mandates that come down from the State and federal government.

Effect of the Presidential Election. Another factor that will hurt County tax revenues will happen following the election of Mitt Romney as President in November. I do believe Romney will win, and I also believe that he will cut some of the programs that contribute to the enormous and continuing deficits that plague the federal government. President Obama's approach has been to borrow his way out of debt. This doesn't work for the nation any more than it works for an individual. The program cuts that I expect Romney to make are necessary for the federal government to begin to live within its means. But it will come with a short-term effect; it will increase unemployment—especially of government employees in Maryland.

Conclusion. For these reasons, I am expecting difficult economic times in Maryland for the next two budget cycles. It is my hope that there will be an economic up-turn three years from now. Regardless of the length of time it will take to get to a balanced federal budget, America must do this, otherwise we will be on a path to follow Greece into insolvency.